PIZZA HUT,® INC. 1972 Annual Report

HISTORICAL HIGHLIGHTS

1958

First Pizza Hut opened.
Founders — Daniel M. Carney, Frank L. Carney, John W. Bender.

1959

Incorporated in Kansas.
First franchise outlet opens in Topeka (Dick Hassur).

1962

Corporation buys out third partner (John W. Bender). Robert Chisholm joins as Treasurer.

1963

Standard design for huts is adopted — Architects—R. D. Burke and B. J. Kingdon

1968

PHI acquires capital stock of 129 franchise corporations.

1969

After meeting SEC requirements, 410,000 shares of common stock offered to the public on January 30. Acquired three additional restaurant divisions — Taco Kid, Next Door and Flaming Steer.
Acquired two supply companies — Franchise Services, Inc., an equipment company, and J & G Food Co., Inc., a food and supply distributor.

1970

New International Headquarters formally opened in Wichita by Governor Robert B. Docking.
PHI opened first two units overseas — Munich, Germany and Sydney, Australia.
Acquired 80% of Ready Italy and formed Sunflower Food Processors, Inc. as a joint venture with Sunflower Beef, Inc.

FISCAL 1972 HIGHLIGHTS

	1972	1971
Total Revenue	$44,559,050	$32,569,174
Net Income	$ 1,894,650	$ 1,286,780
Per Share Income	$ .75	$ .51
Weighted average number of Common Shares outstanding	2,526,265	2,504,724
Working Capital	$ 1,855,188	$ 99,035
Total Assets	$23,510,251	$16,679,407
Stockholders' Equity	$12,297,889	$ 9,581,470

FISCAL 1972 QUARTERLY REVIEW

	1972			1971		
	Sales	Net	Earnings Per Share	Sales	Net	Earnings Per Share
FIRST QUARTER Ended June 30	$ 8,840,105	$ 379,690	$.15	$ 6,765,635	$ 303,876	$.12
SECOND QUARTER Ended Sept. 30	$10,461,865	$ 506,666	$.20	$ 7,589,537	$ 382,836	$.15
THIRD QUARTER Ended Dec. 31	$11,503,152	$ 523,099	$.21	$ 8,107,408	$ 320,819	$.13
FOURTH QUARTER Ended March 31	$12,067,636	$ 485,195	$.19	$ 8,745,853	$ 279,249	$.11
TOTAL	$42,872,758	$1,894,650	$.75	$31,208,433	$1,286,780	$.51

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ANNUAL MEETING
The Annual Meeting of Shareholders will be held at 9:00 A.M., Monday, August 28, 1972, in the Palm Room Holiday Inn Plaza, Wichita, Kansas. A formal notice of the meeting, together with proxy material, is being sent separately to shareholders.

CORPORATE DATA
Common Stock
Stock symbol: PIZA — Traded O-T-C — NASDAQ
Transfer Agents: First National City Bank, New York City, and First National Bank in Wichita
Registrars: Franklin National Bank, New York City, and First National Bank in Wichita

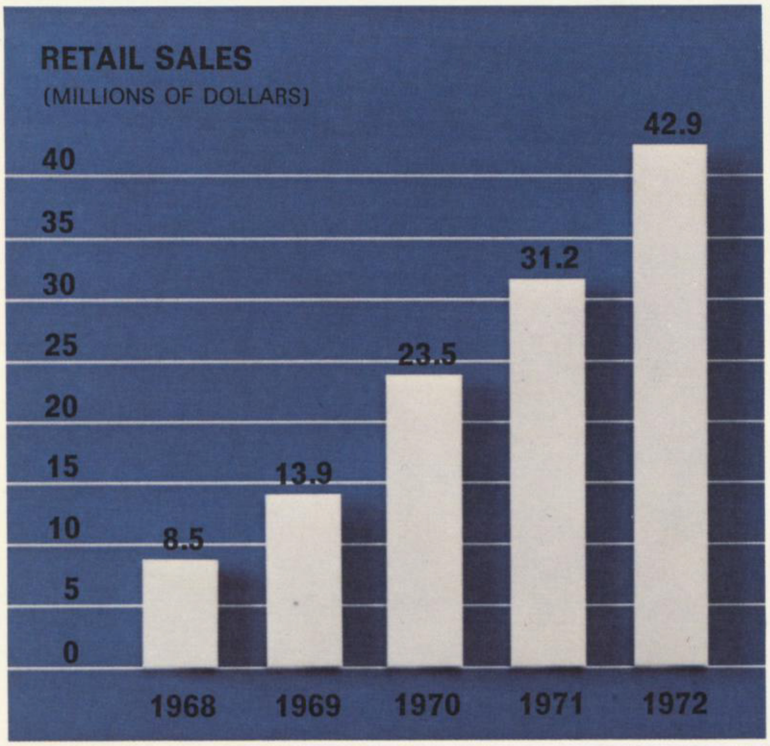
AUDITORS
Ernst & Ernst
Wichita, Kansas

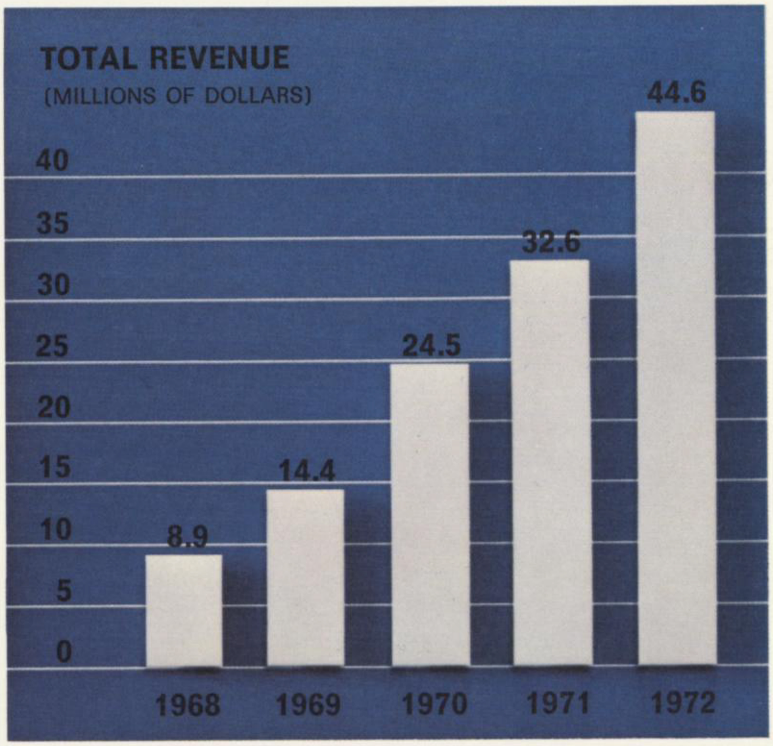
CORPORATE OFFICES
10225 E. Kellogg
Wichita, Kansas 67207
Tel: (316) 685-4111
For additional information:
Farris S. Farha
Corporate Information

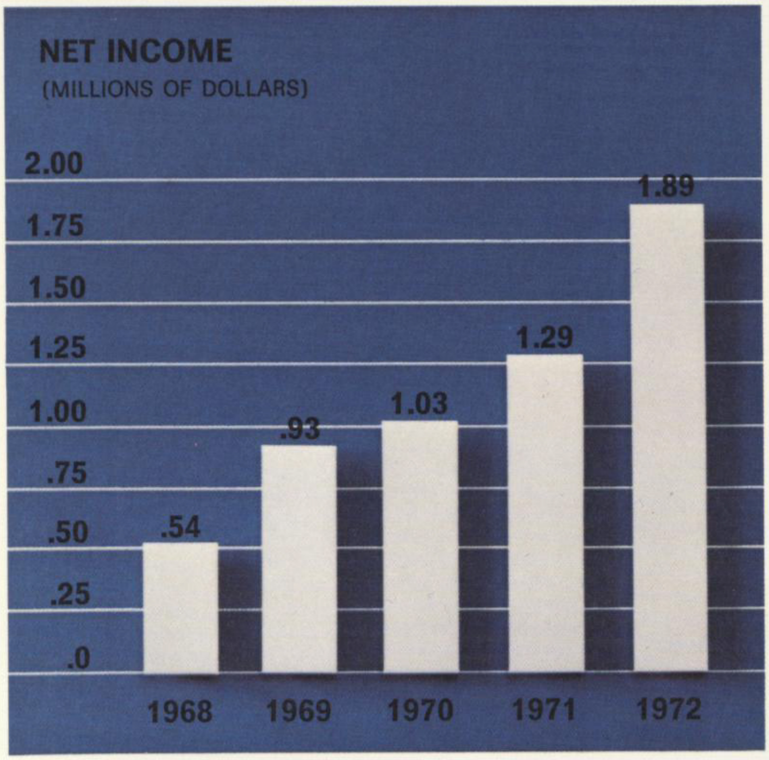
FIVE YEAR PIZZA HUT GROWTH

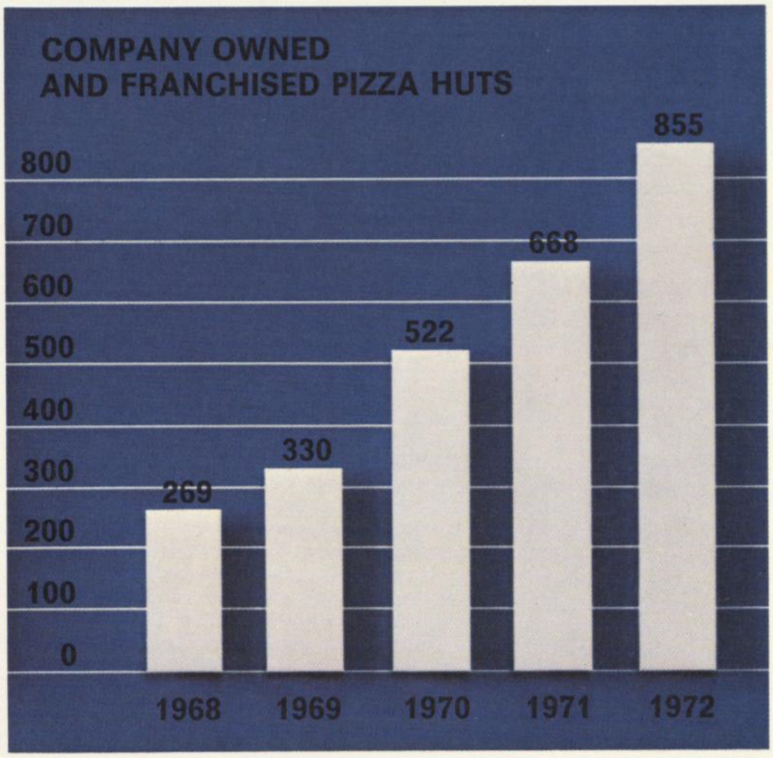
At March 31, 1971	Total Units Pizza Huts	Company Units Open	Franchise Units Open	Avg. Co. Annual Sales Per Unit
1968	269	5	264	$ 98,023
1969	330	149	181	98,175
1970	522	218	304	101,975
1971	668	259	409	103,030
1972	855	359	496	112,567

Units Under Construction or Leases Signed		At March 31, 1971	At March 31, 1972
	Company	35	42
	Franchisee	52	71


RETAIL SALES
(MILLIONS OF DOLLARS)
40
35
30
25
20
15
10
5
0
8.5
13.9
23.5
31.2
42.9
1968
1969
1970
1971
1972

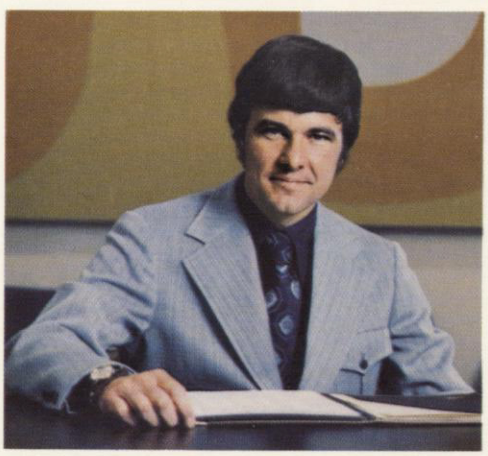

TOTAL REVENUE
(MILLIONS OF DOLLARS)
40
35
30
25
20
15
10
5
0
8.9
14.4
24.5
32.6
44.6
1968
1969
1970
1971
1972


NET INCOME
(MILLIONS OF DOLLARS)
2.00
1.75
1.50
1.25
1.00
.75
.50
.25
.0
.54
.93
1.03
1.29
1.89
1968
1969
1970
1971
1972


COMPANY OWNED
AND FRANCHISED PIZZA HUTS
800
700
600
500
400
300
200
100
0
269
330
522
668
855
1968
1969
1970
1971
1972

Board of Directors
James P. Schwartz, Vice President — Finance, Frank L. Carney, President & Chief Executive Officer, Daniel M. Carney, Chairman of the Board, Martin T. Hart, Investments, G. E. Engleman, Chairman of the Board, Union Bank of Ft. Worth and First National Bank, Hurst, Texas
Not pictured—Robert K. Chisholm, Investments

REPORT TO THE STOCKHOLDERS



In 1972 Pizza Hut, Inc. became the leader in the fast food pizza field. Your company has long been the leader in number of units, but in 1972 PHI took the undisputed lead in total retail sales as well.

The move to the top was the result of having a good plan . . . and then working that plan. We focused immediate growth emphasis in the Pizza Hut Division where management and support systems were best able to springboard success and profitability. PHI continues to operate the other divisions, Taco Kid, Next Door and Flaming Steer, from existing areas until the related management and support systems required for successful expansion are firmly established.

More specifically, the number of Pizza Huts increased to 855 while simultaneously higher volumes were achieved in existing units. The average annual sales for all company Pizza Huts were $112,567, compared to $103,030 in 1971. The increases in sales and units were important by-products of planning.

But just as important as the operating plan itself are the results of the plan — the overall profitability of the company. In this respect, fiscal 1972 was a good year. Total sales increased to $42,872,758. Net income reached $1,894,650. Earnings per share increased to 75¢ per share for 2,526,265 shares. The above figures show sales growth of 38%. Net income growth of 48%. Earnings per share growth of 47%.

During the year your management group focused its attention on the development of the 1973 operating plans, as well as the long term planning function so that both synchronized toward achieving the PHI goals.

This planning enabled us to realistically analyze our areas of problems and opportunities, and develop programs to solve our problems and take optimum advantage of our opportunities.

A case in point is the market research program initiated to define a geographical marketing problem on the West Coast where retail sales have been behind the national average. Research into customer habits and buying attitudes indicated the need for a change in our marketing strategy. So, we instituted the change. Menus were expanded to include multiple toppings, the sandwich line was expanded to give a wider variety, and we added a larger size pizza to the current small and large selection.

The development of Pizza Hut retail units in foreign markets continues to be profitable and aggressive. The company plans to open additional Pizza Huts in Australia, West Germany, Canada, Mexico and England during fiscal 1973. To date these operations have been in the developmental stage and have not had a material effect on the revenues or net income of the company.

Another area of concentration is the expansion of the support divisions to match that of the Pizza Hut Division. Franchise Services, Inc., which is the distribution arm for the retail units; J & G

Products, which is the manufacturing division of the Company, and Sunflower Food Processors, Inc., which supplies cooked sausage and beef toppings, have all grown in capability in 1972.

Expansion of these divisions is important to your company because it has the dual advantage of adding to the profitability of each retail outlet, as well as making each subsidiary a profit center.

We are still experiencing excessive administrative costs for the Taco Kid, Next Door and Flaming Steer Divisions. Although their profit potential has improved somewhat, the improvement is due largely to the decision to halt further expansion until they achieve a firm operating foundation. The same operating procedure is planned for 1973. In addition, a program is underway to consolidate overhead in these divisions to reduce operating costs.

The Pizza Hut national advertising program is developing a strong product image throughout the United States, and your company continues to be the only pizza organization using national television. Our program, however, is lacking in "total merchandising". This will be improved in 1973 as we experiment with integrated merchandising programs which will tie each retail location to the national advertising program through coordinated local advertising aids, posters, banners, placemats, etc. This new thrust into "total merchandising" and promotion will add the needed impetus to the national advertising program to expand the impact at the retail level.

We are continuing our program of developing better products and equipment through our Research and Development department, and better management through our training and human resources programs. To enable us to retain key personnel and attract quality employees, we have contracted with a specialized management consulting firm to study our overall compensation plan . . . so it will be internally equitable and externally competitive.

The new Ready Italy facility at Fargo, North Dakota is completed, but production has been delayed until its highly automated equipment has been thoroughly performance tested. Once in operation, the plant will have the capability to produce 100,000 pizza crusts per day which will be marketed for sale to frozen pizza manufacturers.

To enhance future expansion, we must retain our earnings as well as seek additional financing. A public offering of PHI Common Stock is planned in the near future and a Registration Statement was filed with the Securities and Exchange Commission on June 16, 1972. All of the net proceeds to be received by the company from the sale of the Common Stock to be offered will be used after December 31, 1972 for the acquisition of land and the construction of additional company-operated Huts. Application will be made to list PHI Common Stock on the New York Stock Exchange.

I wish to thank you and our customers for your loyalty; our franchisees for their aggressiveness and cooperation; our employees and suppliers for their continued efforts, for this is what was responsible for our successful fiscal 1972 and causes us to look ahead with confidence.

Respectfully,

Frank L. Carney

Frank L. Carney,
President &
Chief Executive Officer

PIZZA HUT, INC. OPERATING DIVISIONS

The foundation of the company.

Pizza Hut, Inc. has become the largest fast food pizza operation in the world, both in the number of units and total retail sales.

Fiscal 1972 was a year of significant growth, with 188 additional retail units put into operation for a total of 855 units located in 43 states and 5 foreign countries.

But it can be misleading to consider 1972 in the confining facts and figures of one year's operation, regardless of how impressive they may be.

In 1972, construction was initiated on 52 new units which will become operational Pizza Huts in 1973. Leases were signed for 61 additional units which the Company anticipates will open in Fiscal 1973.

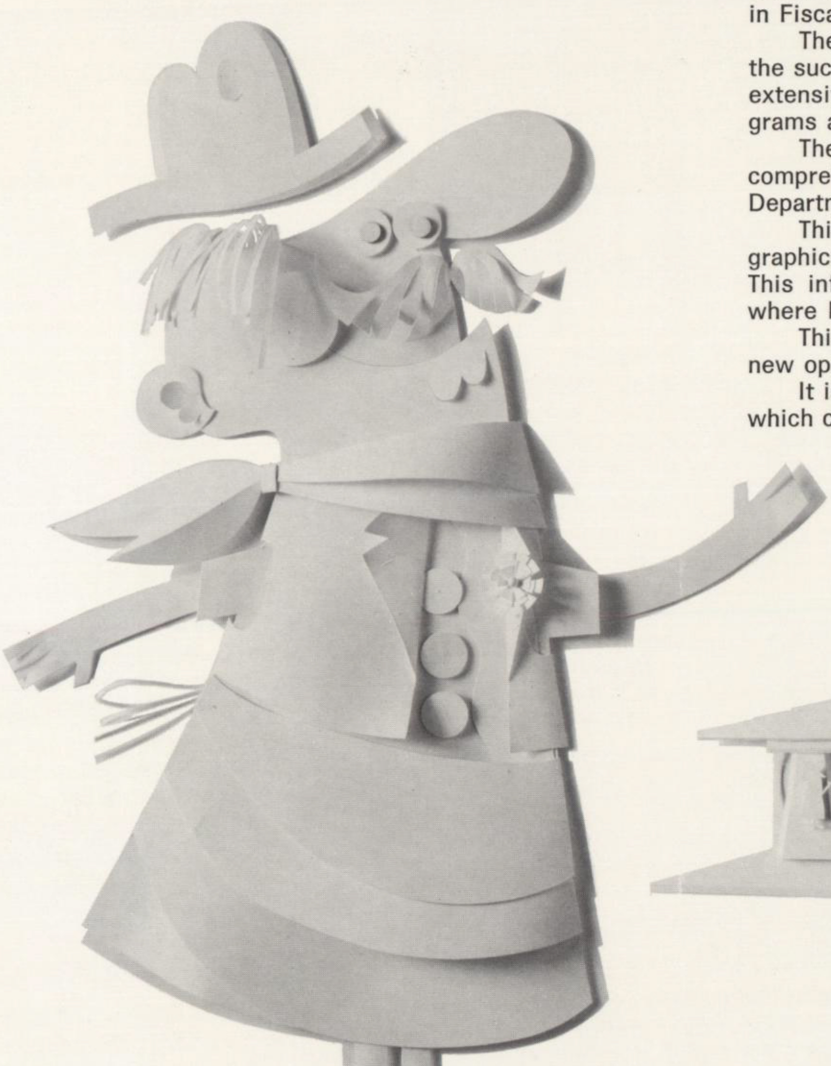
The support divisions continue to play an important part in the successful expansion of the Pizza Hut Division — as do the extensive research and development programs, training programs and the Franchisee Advisory Board.

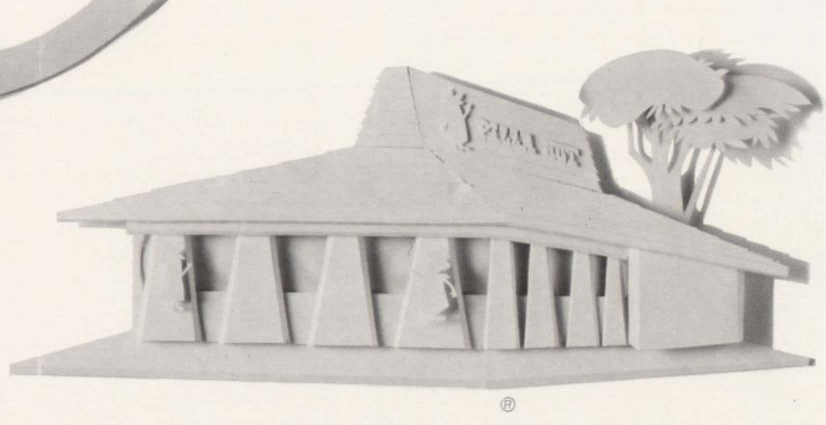
The course of future expansion will be directed by the comprehensive marketing research programs of the Marketing Department.

This first priority program has detailed the specific demographics common to the most successful Pizza Hut locations. This information is being used to study the marketing areas where Pizza Huts are not currently in operation.

This businesslike approach to expansion will enhance each new operation's probability of success.

It is this integration of services and management expertise which contribute to Pizza Hut's popularity and profitability.





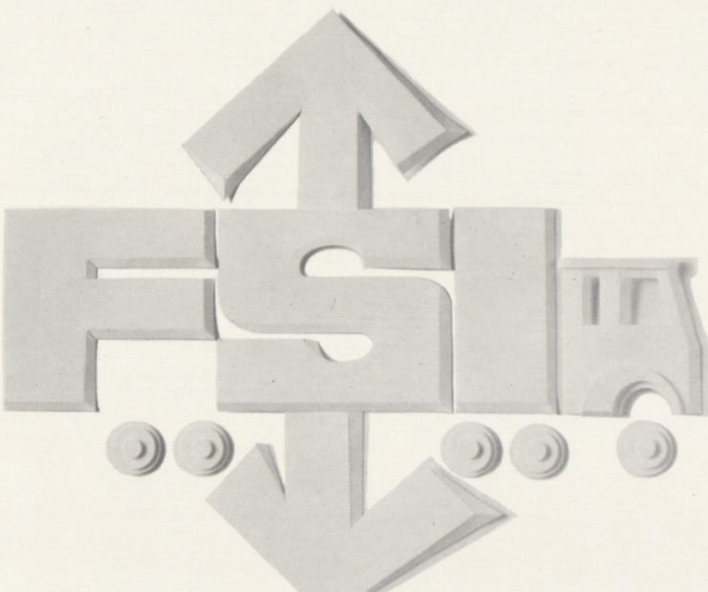
FRANCHISE SERVICES, INC.

Supply line to the field.

A fleet of road trucks, logging more than 700,000 miles yearly serve over 350 units each week. This constant, dependable link with quality food and equipment enables local Pizza Huts to maintain a minimum inventory level and eliminates the need for expensive commissary equipment and storage space. A competitive advantage that should add to the profitability of every Pizza Hut served.

The valuable services provided by Franchise Services, Inc. are among the key elements in the growing success of the Pizza Hut Division. Because it provides both company and franchised Huts, in all parts of the country, a convenient, competitively priced source of supply.

Franchise Services, Inc. also services outlets for Taco Kid Division, plus providing a limited number of specialty items for the Next Door and Flaming Steer Divisions.



J & G PRODUCTS COMPANY

Dual profitability through manufacturing

The J & G Products manufacturing facility has been increased to 30,000 sq. ft. and employs over 60 people.

This new level of maturity places the company in the fortunate position of being able to put its resources to work in supplying the Pizza Hut Division with a wide range of items too difficult or costly to obtain from other manufacturers.

This added dimensional capability is particularly important in view of the expanding markets and demanding needs of the retail operations. Utilization of these resources will allow greater contributions to the needs of Pizza Hut retail locations by lowering the cost of materials and supplies — and adding to their competitive/profitability picture.

REFINING NEW CONCEPTS

FLAMING STEER

The main area of study of the Flaming Steer program is the development, standardization and simplification of day to day operational techniques, and management expertise at the unit level.

NEXT DOOR

The existing Next Door units are under the close supervision of home office management to study and systemize every facet of their operation in order to put every unit on a sound financial footing.

TACO KID

The Taco Kid is undergoing the same study and management review as Next Door and Flaming Steer.

READY ITALY

Vertical diversification into the food industry is becoming a reality through the acquisition and growth of Ready Italy.

A new 16,000 sq. ft. manufacturing facility, incorporating new generation, highly automated production equipment specifically designed for Ready Italy, is scheduled to enter production in Fiscal 1973 and will have the capability of producing 100,000 pizza crusts per day for the frozen food industry.

FIVE YEAR SUMMARY

The Company is principally engaged in the development, operation, franchising and servicing of Pizza Huts, which are casual family restaurants primarily engaged in the sale of pizza for consumption on the premises. The Company also operates a limited number of Mexican food restaurants, charcoal broiled hamburger restaurants and steak restaurants. The Company also manufactures certain fixtures and supplies, processes certain pizza ingredients and purchases, warehouses and distributes equipment, supplies and food products for use in its Pizza Huts and sale to franchisees. The Company also owns 80% of Ready Italy, Inc., a manufacturer of frozen pizza pie crusts. Frozen crusts are not used in Pizza Huts, but are sold to manufacturers of frozen pizza pies.

Fiscal Year Ended March 31, (Dollars in Thousands)

	1968		1969		1970		1971		1972	
	$	%	$	%	$	%	$	%	$	%
Revenues:										
Company operated Pizza Huts	8,365	94.3	13,320	92.4	19,941	81.2	24,838	76.2	34,017	76.3
Product sales to franchisees	3	—	308	2.1	2,402	9.8	3,080	9.5	4,820	10.8
Other restaurants	136	1.5	305	2.1	1,116	4.5	2,879	8.8	3,663	8.3
Frozen pizza pie crusts	—	—	—	—	—	—	411	1.3	373	.8
Franchise fees:										
Initial	138	1.6	181	1.3	505	2.1	430	1.3	502	1.1
Continuing	234	2.6	297	2.1	577	2.4	931	2.9	1,184	2.7
	8,876	100.0	14,411	100.0	24,541	100.0	32,569	100.0	44,559	100.0

	1968 $	1968 %	1969 $	1969 %	1970 $	1970 %	1971 $	1971 %	1972 $	1972 %
Contribution to income:										
Company operated Pizza Huts	659	61.6	2,149	81.4	2,210	62.9	3,611	83.2	5,503	83.5
Product sales to franchisees	—	—	24	.9	331	9.4	98	2.3	468	7.1
Other restaurants & excess property costs	38	3.6	(10)	(.4)	(109)	(3.1)	(745)	(17.2)	(995)	(15.1)
Frozen pizza pie crusts	—	—	—	—	—	—	16	.4	(72)	(1.1)
Franchise fees:										
Initial	138	12.9	181	6.9	505	14.4	430	9.9	502	7.6
Continuing	234	21.9	297	11.2	577	16.4	931	21.4	1,184	18.0
	1,069	100.0	2,641	100.0	3,514	100.0	4,341	100.0	6,590	100.0

The above table sets forth, for each of these activities, the respective amounts and percentages of revenues and of contribution to consolidated income before general and administrative expenses attributable to the home office, interest expense and income taxes. The Company believes that allocating such expenses, interest and taxes would be arbitrary due to the close relationship and interdependency of all of the Company's activities. Expenses (other than general and administrative expenses attributable to the home office, interest expenses and income taxes) related to "Franchise fees" have been allocated to "Company-operated Pizza Huts".

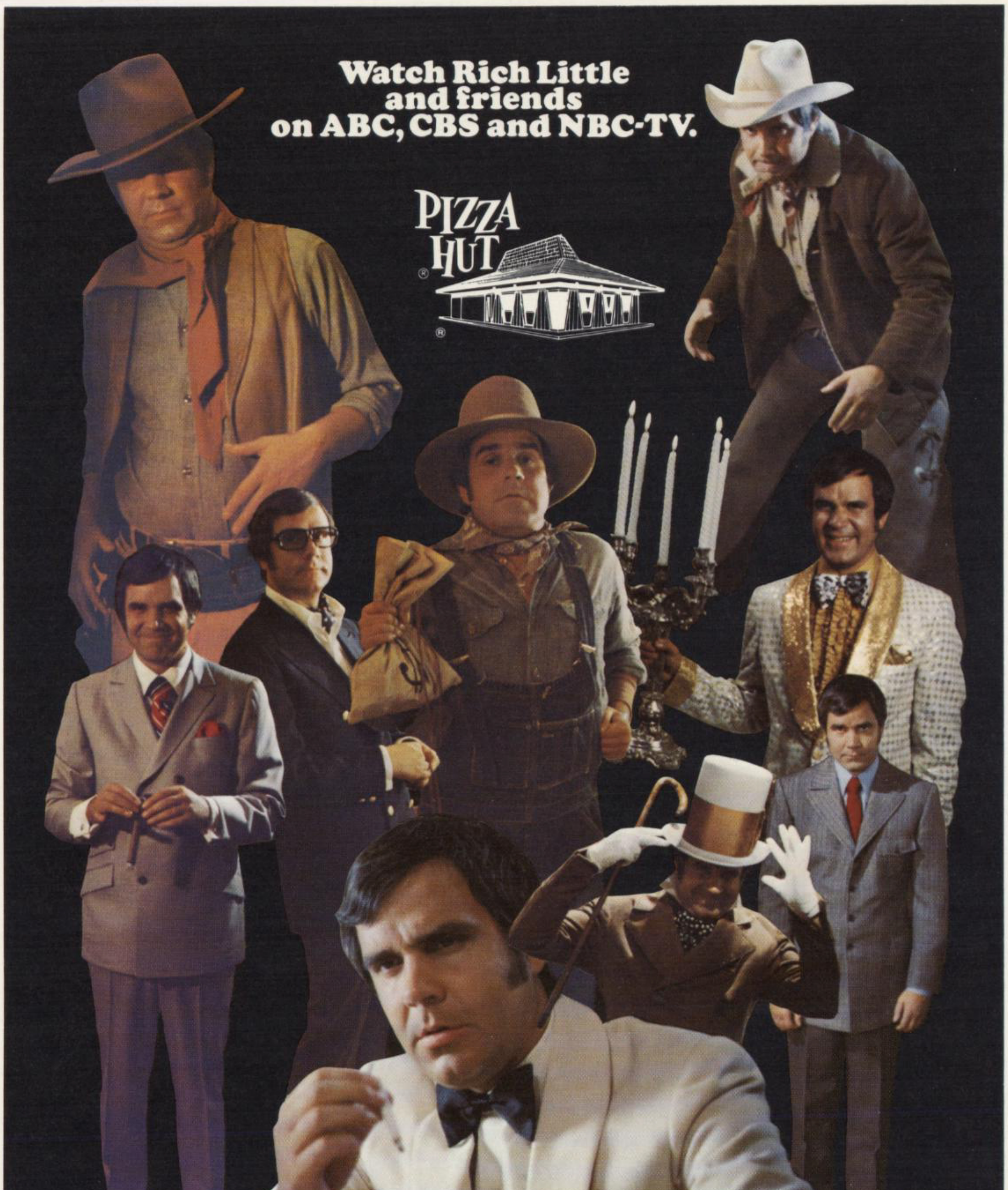
The above table includes for all periods the sales by businesses acquired by the Company since March 31, 1967 in transactions accounted for as poolings of interest and eliminates intercompany transactions.

1972 NATIONAL ADVERTISING PROGRAM

Reader's Digest. NCAA Basketball. Daytime Network Television. The Tonight Show. NCAA Football. This is the I.P.H.F.H.A. National Media Schedule for Pizza Hut in 1972. 18,000,000 copies of the magazine and over 550,000,000 television home impressions! Reader's Digest and all of the television programs were selected with another objective other than their big numbers — their ability to reach Pizza Hut's primary audience.

Again in 1972, Pizza Hut advertising materials have been designed to emphasize this message:

WE SERVE MORE PIZZA THAN ANYONE ELSE IN THE WORLD



INTERNATIONAL PIZZA HUT FRANCHISE HOLDERS ASSOCIATION

Daniel Hesse,
Association Director

Michael L. Stegman,
Association Administrator

Directors:

Virgil Boll, Franchisee, Houston, Texas
Vic Bonat, Franchisee, Annandale, Virginia
Bernie Butler, Franchisee, Manhattan, Kansas
Jamie Coulter, Franchisee, Wichita, Kansas
Chuck Quinette, Franchisee, San Bernardino, California
Dave Remmert, Franchisee, Evansville, Indiana
Ken Miller, PHI Representative, Corporate Office

Reader's
60¢
January 1972
Here's $1.00 for you to find out why.
$1.00 OFF on any large Pizza Hut Pizza. Coupon good at any participating Hut during January, 1972. Check the phonebook for the Pizza Hut nearest you.
PIZZA HUT
The Pizza Huts serve more pizza than anyone else in the world.
HOW TO WRITE A GOOD WANT AD
be interested, and then have your ad stress what will appeal most to this person."
Being clear, simple and as specific as you can is more important than being clever. An Indiana survey disclosed that 49 percent of readers were critical of real-estate want ads for not telling them enough. Such resentment may affect results. Indeed, the Bureau of Advertising of the American Newspaper Publishers Association ran tests which concluded that ads with the "seven basic facts"* on properties are twice as productive as those without one or more of them.
Emphasize the advantages in your ad. Including a price is one means of doing that. If you do not know what to ask, other want ads in your classification will tell you what else is on the market and for how much. Banks and newspapers can often provide you the book value on a used car. Some owners pay for property appraisals as a solid basis on which to set a price.
The word "firm" on your price may discourage inquiries. One man subtly invited bids on his home by saying he was "talking $86,500—softly." If you do not care to mention price, taking refuge behind the word "sacrifice" is meaningless; readers are far more interested in what they may be getting than in your hard-
a me-too ad, and will also provide clues on the market.
In most cases, common sense dictates where to place your ad. For example, a house painter looking for work near his home should try the local weekly. By the same token, do not limit your thinking to newspapers. The logical spot for this ad—
—may well be a shopping center's bulletin board. Club notes, display space in company lounges, school publications and church newsletters can also be utilized in seeking your most relevant audience.
Shake hands with your reader. "Want ads," says Frank W. Lester,
classified director for the Los Angeles Times, which annually prints more than three million such ads, "are basically funnels for direct person-to-person communication." Some of the best want ads are, in fact, like short notes to a good friend. One home-for-sale ad was headed:
The seller wanted customers to know that he would haggle the final price as long as he got $1500 for openers.
A Milwaukee Journal want-ad booklet says, "In business, U comes before I." And the Journal's classified-ad manager, Fred Gabriel, recommends: "Analyze honestly what you have to offer, visualize who will
22
Here's another $1.00
$1.00 OFF on any large Pizza Hut Pizza. Coupon good at any participating Hut during February, 1972.
PIZZA HUT

PIZZA HUT
NCAA BASKETBALL ON NBC-TV
Watch action-packed NCAA Football on ABC-TV
PRE-GAME SHOW and COLLEGE FOOTBALL HIGHLIGHTS Brought To You by PIZZA HUT
HIGH NOON LOW PRICES
SPEND THE EVENING WITH THE GANG... YOUR GANG!
THE BIG MOUTH SPECIAL
$0.00
(LOCATIONS)
Bring your family together
for only $0.00 at The PIZZA HUT.
FOR THE TOWN THAT HAS EVERYTHING... PIZZA HUT
COME... to the PIZZA HUT.

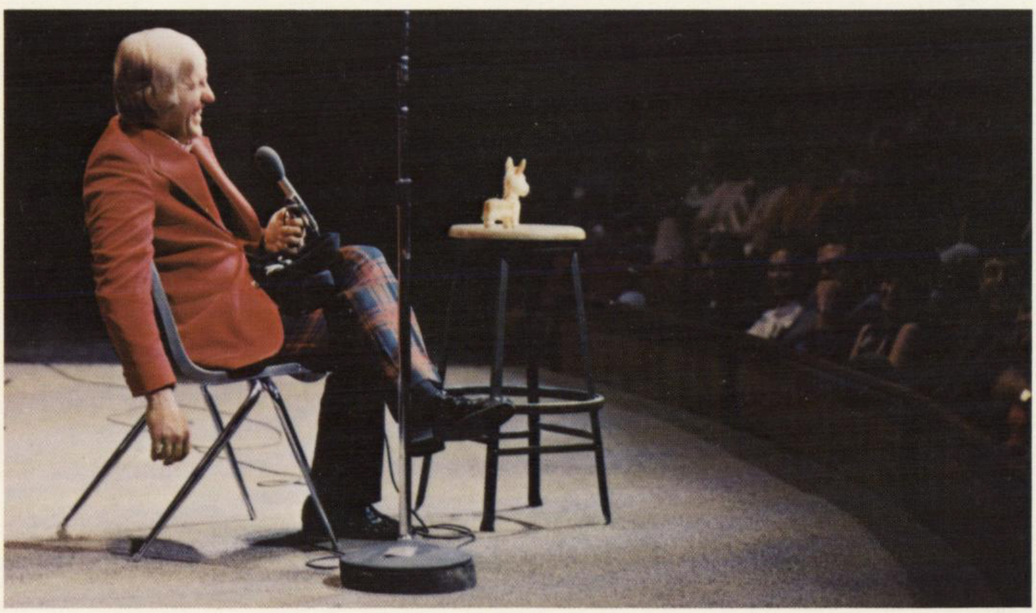
PIZZA HUT FRANCHISEES.......

P.H.I. secretaries register arriving franchisees and company personnel for Annual Franchise Meeting.

Another function of the Annual Franchise Meeting was a well attended banquet for all participants.

Franchisees, suppliers and company people relax during break between sessions.

Jerry Van Dyke entertains attendees of 1972 Annual Franchise Meeting.



THE FOUNDATION FOR SUCCESS!

Howard Wilkins, President and Chief Executive Officer of General Resources, Inc. holds staff conference. G.R.C. is the largest Pizza Hut franchisee group, with more than 80 operating units.

Pizza Hut franchisees are a diverse group of independent businessmen who have made possible the accelerated growth of Pizza Hut, Inc. They bring to the organization active involvement in the local market, as well as much needed knowledge of local marketing conditions.

Operating 496 retail Pizza Huts in 43 states and 3 foreign countries, the Pizza Hut franchisees provide the broad foundation that allows aggressive growth in many marketing areas at the same time. But, every franchisee maintains operational ownership in every retail unit in his territory.

The profile of a Pizza Hut franchisee is unique to the industry. The typical franchisee is a multiple unit operator with huts in a diverse geographical area and thus incurs the same business problems and opportunities as Pizza Hut, Inc. Of the 496 franchise units, less than 30 are singly owned and operated, while the ten largest franchisee groups operate over 200 stores and are firms of substantial size and financial means. Their management know how, coupled with their total involvement, is a primary contributor to their high level of success.

Regular communication with the franchise organization is through annual meetings, the Franchise Advisory Board, (a representative group of franchisees that meets quarterly to act as a sounding board for company policies and programs) and the quarterly visits by company personnel to each franchisee unit.

Over 90% of the franchisees belong to the International Pizza Hut Franchise Holders Association — which is an organization formed to develop and fund national advertising programs . . . as well as provide added benefits to the members, such as group and casualty insurance programs.

The aggressiveness of the Pizza Hut franchisee organization is unparalleled in the pizza industry. And it is this rapport and cooperation, both with the parent company and between themselves, which is responsible for the continuing success of the Pizza Hut franchise system.

Dale Wiggins, President and Gary Davis, Vice President of Franchise Services, Inc. (a wholly owned P.H.I. subsidiary) showing franchisees Ken Wagnon and Jamie Coulter a dough mixer modified to Pizza Hut specifications.

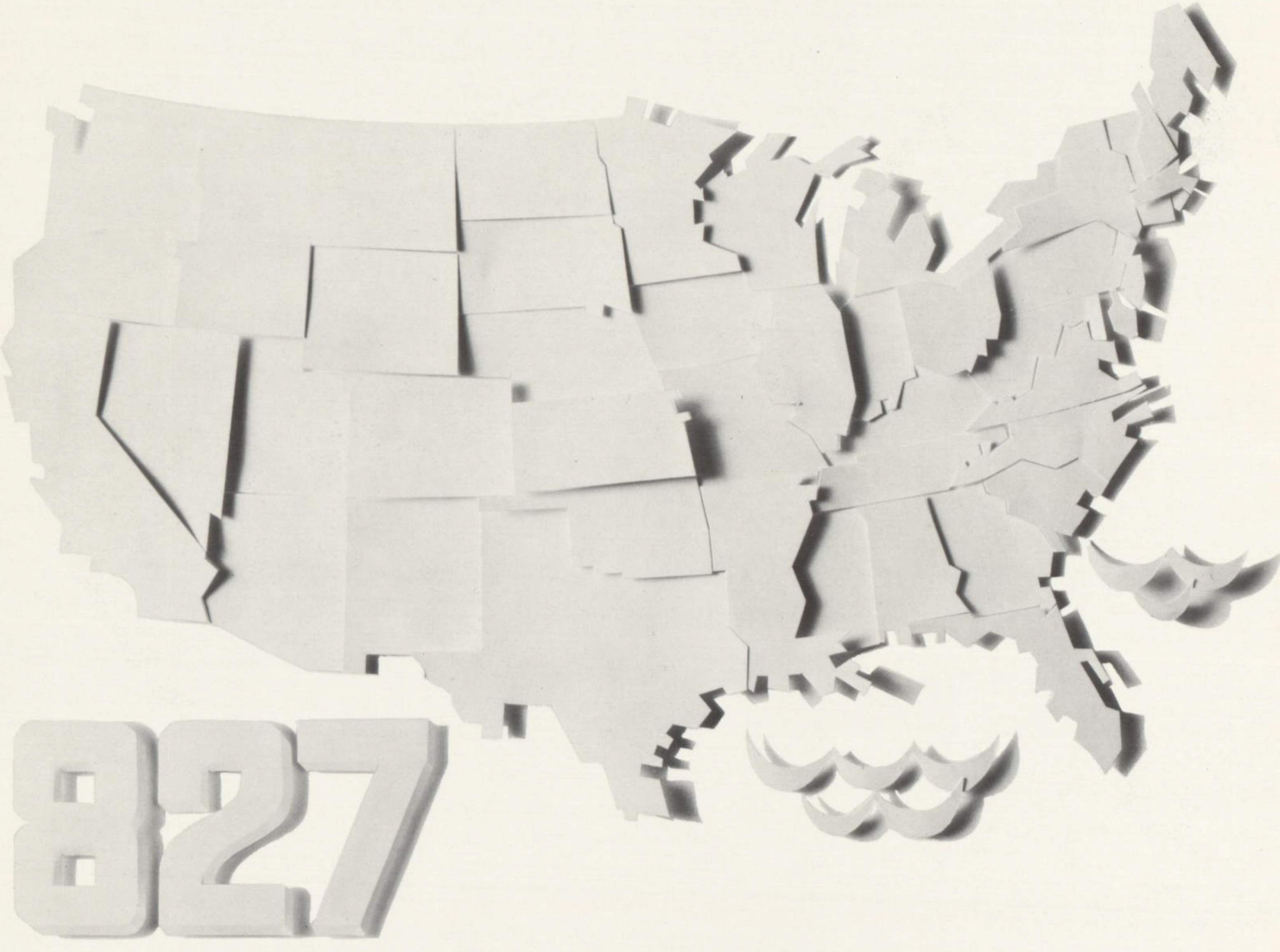
Representative session of 1972 Annual Franchisee Meeting.

PIZZA HUT, INC./CURRENT LOCATIONS

28

COMPANY OWNED AND FRANCHISED PIZZA HUTS — INTERNATIONAL

The 28 company and franchised international units are located in Mexico, Canada, Costa Rica, Australia and Germany.



COMPANY OWNED AND FRANCHISED PIZZA HUTS — U. S. A.

The 827 company and franchised Pizza Huts serve our customers in 43 states including Hawaii and Alaska.

STATEMENT OF CONSOLIDATED INCOME

PIZZA HUT, INC.
AND
DOMESTIC
SUBSIDIARIES

	Years ended March 31 1972	1971
Net sales	$42,872,758	$31,208,433
Cost of sales	14,890,677	11,221,631
	27,982,081	19,986,802
Initial franchise fees	502,000	429,534
Continuing franchise fees	1,184,292	931,207
Equity in net income of unconsolidated foreign subsidiaries and minority owned affiliates — Note A	158,989	
	29,827,362	21,347,543
Selling, general, and administrative expenses	26,056,434	19,163,790
	3,770,928	2,183,753
Other income (including interest: 1972 — $127,610 and 1971 — $116,227)	353,498	267,717
	4,124,426	2,451,470
Interest expense	392,776	308,359
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	3,731,650	2,143,111
Federal and state income taxes — Note D		
Current	1,719,000	803,331
Deferred	118,000	266,000
	1,837,000	1,069,331
INCOME BEFORE EXTRAORDINARY ITEM	1,894,650	1,073,780
Extraordinary item — reduction in income taxes resulting from the carry-forward of net operating losses		213,000
NET INCOME	$ 1,894,650	$ 1,286,780
Net income per share of Common Stock — Note E		
Net income before extraordinary item	$ .75	$ .43
Extraordinary item		.08
Net income	$ .75	$ .51

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

PIZZA HUT, INC.
AND
DOMESTIC
SUBSIDIARIES

ASSETS

	March 31 1972	March 31 1971
CURRENT ASSETS		
Cash	$ 2,234,591	$ 965,700
Marketable securities — at cost which approximates market	1,100,000	
Trade and other receivables — less allowance of $65,000 in 1972 and $60,000 in 1971	1,405,108	2,014,183
Inventories — at lower of cost (first-in, first-out method) or market	1,608,569	1,168,477
Prepaid expenses	233,253	230,624
TOTAL CURRENT ASSETS	6,581,521	4,378,984
OTHER ASSETS		
Investment in and advances to foreign subsidiaries and minority owned affiliates — Note A	1,033,732	290,984
Miscellaneous deposits and accounts	622,828	644,588
Notes receivable (less allowance of $50,000 in 1972)	564,723	430,375
Note receivable from officer		70,000
Cost in excess of net assets of businesses acquired — Notes A and C	1,389,733	566,420
Patents, service marks, and franchises — Note C	406,614	110,407
	4,017,630	2,112,774
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost — Notes B and C		
Land	2,244,102	2,346,115
Buildings and improvements	1,753,894	1,646,565
Operating equipment	6,652,684	4,120,862
Leasehold improvements	3,674,590	1,843,717
Construction in progress (estimated cost to complete — $20,000 in 1972)	791,856	386,607
Cash and investments appropriated for completion of construction in progress		594,971
Allowances for depreciation and amortization (deduction)	(3,002,982)	(1,579,420)
	12,114,144	9,359,417
DEFERRED CHARGES — NOTE C		
Unamortized debt expense	103,534	
Unamortized organization and reorganization expenses	353,654	418,613
Deferred income taxes — Note D	164,000	282,000
Unamortized deferred site development costs	175,768	127,619
	796,956	828,232
	$23,510,251	$16,679,407

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31 1972	March 31 1971
CURRENT LIABILITIES		
Notes payable		
To banks	$ 248,545	$ 1,344,677
To others	28,593	462,078
Trade accounts payable and accrued expenses	2,253,354	1,695,639
Income taxes — Note D	1,316,392	518,995
Current portion of long-term debt	879,449	258,560
TOTAL CURRENT LIABILITIES	4,726,333	4,279,949
LONG-TERM DEBT — Note B	5,967,646	2,301,988
DEFERRED INITIAL FRANCHISE FEE INCOME	518,383	516,000
STOCKHOLDERS' EQUITY — Note E		
Common Stock	25,752	25,173
Other capital	341,524	341,524
Additional paid-in capital	7,191,006	6,369,816
Retained earnings	4,739,607	2,844,957
	12,297,889	9,581,470
COMMITMENTS AND CONTINGENT LIABILITIES — Note F	$23,510,251	$16,679,407

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

Years ended March 31, 1972, and March 31, 1971

PIZZA HUT, INC.
AND
DOMESTIC
SUBSIDIARIES

	Common Stock Shares	Common Stock Amount	Other Capital	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at April 1, 1970:						
As previously reported	2,506,903	$25,069	$341,524	$6,315,909	$1,529,188	$ (138)
Adjustment for acquisition of pooled company	7,583	76		5,924	(8,050)	
As restated	2,514,486	25,145	341,524	6,321,833	1,521,138	(138)
Treasury stock (13,791 shares) sold to an officer				32,823	37,039	138
Acquisition of purchased companies	2,750	28		15,098		
Sale of stock options for 250 shares				62		
Net income					1,286,780	
BALANCE AT MARCH 31, 1971	**2,517,236**	**25,173**	**341,524**	**6,369,816**	**2,844,957**	
Acquisition of purchased companies — Note A	53,846	538		699,459		
Sale of warrants to purchase 52,500 shares — Note B				78,750		
Exercise of employee stock options — Note E	4,088	41		38,304		
Amounts received under employee stock option plan to preserve options previously granted				4,677		
Net income					1,894,650	
BALANCE AT MARCH 31, 1972	**2,575,170**	**$25,752**	**$341,524**	**$7,191,006**	**$4,739,607**	**$ —**

See notes to consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

PIZZA HUT, INC. AND DOMESTIC SUBSIDIARIES

	Years ended March 31 1972	1971
SOURCE OF FUNDS		
Income before extraordinary item	$1,894,650	$1,073,780
Charges to income not affecting funds:		
Depreciation and amortization	1,551,407	685,572
Decrease in deferred income taxes	118,000	266,000
Equity in net income of unconsolidated foreign subsidiaries and minority owned affiliates	(158,989)	
TOTAL FROM OPERATIONS, EXCLUSIVE OF EXTRAORDINARY ITEM	3,405,068	2,025,352
Extraordinary item		213,000
TOTAL FROM OPERATIONS	3,405,068	2,238,352
Proceeds from long-term debt	4,793,464	1,227,489
Disposals of property, plant, and equipment	796,997	2,596,615
Sale of treasury stock (13,791 shares)		70,000
Issuance of Common Stock and Common Stock warrants	814,692	15,126
Other items	9,460	62
	9,819,681	6,147,644
APPLICATION OF FUNDS		
Acquisition of assets of businesses purchased:		
Property, plant, and equipment	1,795,534	97,308
Franchise rights and other assets	378,123	84,742
Cost in excess of net assets acquired	859,994	104,345
Long-term debt assumed	(345,833)	(138,420)
	2,687,818	147,975
Additions to property, plant, and equipment	3,159,836	4,546,520
Reduction of long-term debt	1,473,639	320,758
Decrease in deferred initial franchise fees		527,625
Investments in and advances to unconsolidated foreign subsidiaries and minority owned affiliates	583,759	174,063
Other items	158,476	216,397
	8,063,528	5,933,338
INCREASE IN WORKING CAPITAL	$1,756,153	$ 214,306
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT		
Cash	$1,268,891	$ 89,481
Marketable securities	1,100,000	
Trade and other receivables	(609,075)	273,120
Inventories	440,092	213,965
Prepaid expenses	2,629	(62,910)
Notes payable and current portion of long-term debt	908,728	(518,784)
Trade accounts payable and accrued expenses	(557,715)	(215,437)
Income taxes	(797,397)	434,871
INCREASE IN WORKING CAPITAL	$1,756,153	$ 214,306

See notes to consolidated financial statements.

PIZZA HUT, INC.
AND
DOMESTIC
SUBSIDIARIES

NOTE A — CONSOLIDATION POLICIES AND BUSINESS COMBINATIONS

The consolidated financial statements include the accounts of all domestic subsidiaries after elimination of significant intercompany accounts and transactions.

At March 31, 1972, investments in wholly-owned subsidiaries in Australia, Canada, West Germany, and Mexico ($78,009) and in minority owned affiliates in Houston, Texas, and Wichita, Kansas ($279,093), are carried at cost plus equity in net income from date of acquisition. In 1971 and prior financial statements, these investments were carried at cost. The 1971 and prior financial statements have not been restated to reflect this change in accounting method because the effect on those financial statements would be immaterial.

The Canadian and Mexican subsidiaries were purchased during 1972 at a cost of $520,145. At the date of acquisition, the Company's cost in these subsidiaries exceeded its equity in the subsidiaries' net assets by $143,148. This amount is included in investments in and advances to foreign subsidiaries and is being amortized over a 40-year life.

During 1972 the Company acquired 36 Pizza Hut restaurants and 15 other pizza restaurants in transactions accounted for as purchases. The cost of these units was $1,699,013 including 53,846 shares of the Company's Common Stock valued at $699,998. The Company's cost in these units exceeded the value of net assets obtained in the acquisitions by $859,994. This excess cost is being amortized over a forty-year life. The operations of these units have been included in the accompanying statement of consolidated income from the dates of acquisition. Following are consolidated results of operations of the Company on a pro forma basis as though the above units had combined at the beginning of 1971:

	1972	1971
Net sales	$45,362,880	$36,342,669
Income before extraordinary item	2,002,600	1,121,670
Net income	2,002,600	1,334,670
Net income per share of Common Stock	$.78	$.52

During the year ended March 31, 1972, all the outstanding Common Stock of a company operating one Pizza Hut was acquired for 7,583 shares of the Company's Common Stock. This transaction was treated for accounting purposes as a pooling of interests and accordingly the accounts of the acquired company (which are immaterial in amount) have been included in the consolidated financial statements for the entire year ended March 31, 1972, and 1971 has been restated.

NOTE B — LONG-TERM DEBT

Following is a summary of long-term debt:

	1972	1971
8¾% Senior Notes due 1987. Face value $1,500,000 (less a discount of $78,750 attributable to warrants resulting in an effective interest rate of 9⅓%) payable in annual installments of $150,000 beginning in March, 1977	$1,421,250	
Notes payable to banks in quarterly installments of $100,000 plus interest at 1¼% over prime rate to December, 1976	1,900,000	

Mortgage notes payable in monthly installments of $18,691, including interest at rates from 5% to 12% maturing at various dates through 1991. Land, buildings, and leasehold improvements with a carrying value of $2,362,000 have been mortgaged as collateral	$1,374,351	$1,206,352
Capitalized lease obligation payable through 1985 in increasing monthly installments including interest from 7½% to 8¼%	975,000	975,000
Equipment notes payable in monthly installments of $16,301, including interest at rates of 4¾% to 11% maturing at various dates through 1975. Equipment with a carrying value of $612,000 has been mortgaged as collateral	301,071	137,536
8% notes, due in September, 1976, convertible into shares of the Company's Common Stock at the rate of $8.50 per share	250,000	
Other unsecured notes payable in monthly installments of $10,555 plus interest at rates of 6% to 10.85% maturing at various dates through 1977	625,423	241,660
	6,847,095	2,560,548
Less amounts due within one year	879,449	258,560
	$5,967,646	$2,301,988

The 8¾% Senior Note purchase agreement provides for the Company to issue an additional $1,000,000 of Senior Notes by September 29, 1972. Warrants to purchase 52,500 shares of the Company's Common Stock at $9.25 a share have been issued in conjunction with this agreement, and warrants to purchase an additional 35,000 shares at $9.25 a share will be issued upon issuance of the additional $1,000,000 of Senior Notes.

The Company has agreed, under certain long-term debt agreements, to maintain working capital of $700,000 and to maintain a current ratio of at least 1.2 to 1. On April 1, 1972, these restrictions increased to $950,000 and 1.35 to 1, respectively. The agreements also contain certain restrictions which, among other things, prohibit the payment of dividends at March 31, 1972.

NOTE C — DEPRECIATION AND AMORTIZATION POLICIES

Provision for depreciation of buildings and equipment was made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives by the straight-line and accelerated methods. Leasehold improvements are amortized by the straight-line method. Depreciation expense amounted to $1,403,646 in 1972 and $579,047 in 1971.

The cost in excess of net assets acquired in business combinations accounted for as purchases prior to October 31, 1970, was not amortized, since in the opinion of management, there has been no diminution in value. Amounts acquired after October 31, 1970, were amortized over a forty-year life. Franchise rights were amortized over a fifteen-year life. Organization and reorganization costs were amortized over five and fifteen-year lives, respectively. Deferred site development costs were amortized over a five-year life. All amortization was determined using the straight-line method and amounted to $147,761 in 1972 and $106,525 in 1971.

NOTE D — INCOME TAXES

Deferred income taxes arise primarily from the deferral of initial franchise fee income for accounting purposes until the related retail unit has been opened by the franchisee, partially offset in 1972 by certain expenditures which were deferred in arriving at book income but deducted in arriving at taxable income.

Investment tax credits, which have been accounted for using the flow-through method, amounted to approximately $116,000 and $4,000 in the years ended March 31, 1972, and 1971, respectively.

NOTE E — CAPITAL STOCK

The Company is authorized to issue 10,000,000 shares of $0.01 par value Common Stock and 1,000,000 shares of $0.01 par value Preferred Stock. None of the Preferred Stock has been issued.

At March 31, 1972, employee options to acquire 52,582 shares of the Company's Common Stock were outstanding at prices varying from $9.38 to $20.56. Of these options, 10,822 were exercisable at $9.38. Options to acquire 4,088 shares at $9.38 were exercised during the year ended March 31, 1972. None had been exercised previously.

Under the terms of a deferred compensation agreement, a director of the Company will be granted options to acquire an amount of the Company's Common Stock at $6.50 per share. The number of shares covered by these options accumulates until 1976 based on the extent of consulting services rendered by the director. At March 31, 1972, options to purchase 1579 shares were outstanding under this agreement and approximately $10,000 compensation expenses had been charged to income.

At March 31, 1972, Common Stock was reserved as follows:

	Shares
Conversion of 8% convertible notes	29,412
Employee stock option plan	95,912
Warrants to purchase Common Stock at $9.25 a share	87,500
Options under director's deferred compensation agreement	9,741
	222,565

The effect of conversion or exercise of the outstanding rights to acquire Common Stock was not included in the computation of earnings per share since the resulting dilution was immaterial.

NOTE F — COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 1972, the Company and subsidiaries were lessees under long-term building and equipment leases expiring through 2008. These leases require average minimum rentals (exclusive of real estate taxes, maintenance, and insurance payments required by some of the leases) in the periods ending March 31 as follows:

1973 - 1975	$4,474,180
1976 - 1980	3,841,837
1981 - 1985	3,088,679
1986 - 1990	1,809,680
1991 - 2008	92,883

At March 31, 1972, as a result of various transactions, the Company was guarantor of lease commitments of certain franchisees. The annual and aggregate commitments under these guarantees is summarized as follows:

Transaction	Annual Commitment	Aggregate Commitment
Guaranteed for a fee	$387,474	$ 5,954,046
Minority owned interests	244,004	3,595,327
Resulting from sales to franchisees	202,726	2,777,082
	$834,204	$12,326,455

The Company is a party to pending or threatened lawsuits arising from the normal conduct of its business. While it is not possible to forecast the results of these matters, it is management's opinion that the outcome of these lawsuits will not result in a material adverse effect on the Company's financial position.

NOTE G — SUBSEQUENT EVENTS

Subsequent to March 31, 1972, the Company acquired, in exchange for 248,595 shares of its Common Stock, 21 operating Pizza Huts in transactions which will be treated for accounting purposes as poolings of interests. On a consolidated basis, after giving retroactive effect to these acquisitions, the net sales, net income, and net income per share for the years ended March 31, 1972, and 1971 will be as follows:

	March 31	
	1972	1971
Net sales	$45,677,776	$32,365,572
Net income	2,117,346	1,328,063
Net income per share of Common Stock	$.76	$.49

ERNST & ERNST
500 FARMERS & BANKERS BUILDING
WICHITA, KANSAS 67202

ACCOUNTANTS' REPORT

Stockholders and Board of Directors
Pizza Hut, Inc.
Wichita, Kansas

We have examined the consolidated financial statements of Pizza Hut, Inc. and its domestic subsidiaries for the years ended March 31, 1972, and 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, stockholders' equity, and changes in financial position present fairly the consolidated financial position of Pizza Hut, Inc. and its domestic subsidiaries at March 31, 1972 and 1971, and the consolidated results of their operations, changes in stockholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change (in which we concur) in the method of accounting for investments in foreign subsidiaries and minority owned affiliates as described in Note A to the consolidated financial statements.

Wichita, Kansas
June 1, 1972

Ernst & Ernst

PRINCIPAL OFFICERS

Frank L. Carney,
President & Chief Executive Officer
James P. Schwartz,
Vice President - Finance
Robert E. Cressler,
Vice President - Operations
Robert L. Logsden,
Vice President - Food Processing
Daniel J. Taylor,
Treasurer & Chief Accounting Officer
Gerald T. Aaron,
Secretary & General Counsel

BOARD OF DIRECTORS

Daniel M. Carney,
Chairman of the Board
Frank L. Carney,
President & Chief Executive Officer
Robert K. Chisholm,
Investments
Martin T. Hart,
Investments
James P. Schwartz,
Vice President - Finance
G. E. Engleman,
Chairman of the Board, Union Bank of Ft. Worth and First National Bank, Hurst, Texas

EXECUTIVE PERSONNEL

Accounting
Daniel J. Taylor, Director
Max Sutton, Controller
Construction
Gene W. Danitschek, Director
Corporate Information
Farris S. Farha, Director
Real Estate Development
John H. Songer, Director
Theodore A. Swan, Assistant Director
Franchise
Kenneth R. Miller, Director
Legal
Gerald T. Aaron, General Counsel
Albert J. Kirk, Assoc. House Counsel

Management Information Services
Robert J. Navrat, Director
Hal W. McCoy, Manager of Systems and Programming
Phil Whiteman, Manager of EDP Operations
Marketing
Kenneth R. Miller, Director
Office Services
Lois Bird, Director

Operations, Domestic
Pizza
Darrel L. Rolph, Director
James E. O'Donnell, Assistant Director of Operations
South Central - Ronald G. Williams
North Central - Larry L. Strahm
Northeast - James W. Tucker
Western - H. Roger Karolick
Southeast - Richard M. Bennett
Flaming Steer
James J. Aboud, Director
Taco Kid
Jim McNerney, Director
Next Door
Larry F. Payne, Director

Operations, Foreign
Joseph P. Flynn, Director
Jack L. Shelton, Assistant Director
Personnel/Administrative Services
Farris F. Farha, Director
Research and Development
M. Hal Taylor, PhD, Director
Training
William J. Walsh, Director

SUBSIDIARIES

Franchise Services, Inc.
Dale E. Wiggins, President
Gary A. Davis, Vice President
Larry Fugate, Vice President

J & G Products, Inc.
Larry F. Payne, President

Ready Italy, Inc.
Gene Cortese, President

INTERNATIONAL SUBSIDIARIES

Pizza Hut Australia Pty. Ltd.
James McPeak, Managing Director

Pizza Hutte, GmbH (West Germany)
Frank Gordon, Managing Director
Stanley T. Ostrowski, Director of Operations

Pizza Hut Del Distrito, S. A. de C. V. (Mexico)
Joel Trevino, Managing Director

Central Development of Montreal, Ltd. (Canada)
Randall Ferris, Managing Director

JOINT VENTURE

Sunflower Food Processors, Inc.
John Reed, President

PIZZA HUT PEOPLE / CORPORATE

Albert J. Kirk, Associate House Counsel and Gerald T. Aaron, General Counsel.

John H. Songer, Director Real Estate Development, Gene W. Danitschek, Director Construction

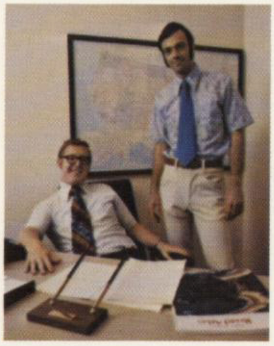
Accounting Section

Robert A. Geist, former Regional Manager and H. Roger Karolick, Western Regional Manager

Janice M. Klish, Insurance Section

Daniel J. Taylor, Director Accounting, Robert J. Navrat, Director Management Information Services

Larry L. Strahm, North Central Regional Manager and James W. Tucker, Northeast Regional Manager



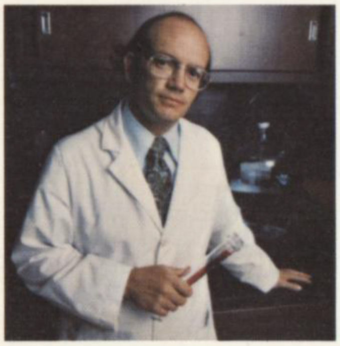
Robert L. Logsden,
Vice President,
Food Processing

Richard M. Bennett, Southeast Regional Manager; James E. O'Donnell, Assistant Director of Pizza Operations; Ron G. Williams, South Central Regional Manager

Robert K. Chisholm, Member of Board of Directors, Rene Knolla, Receptionist

Robert E. Cressler, Vice President Operations, Tom Rollert, Research and Development and Darrel L. Rolph, Director of Pizza Operations.

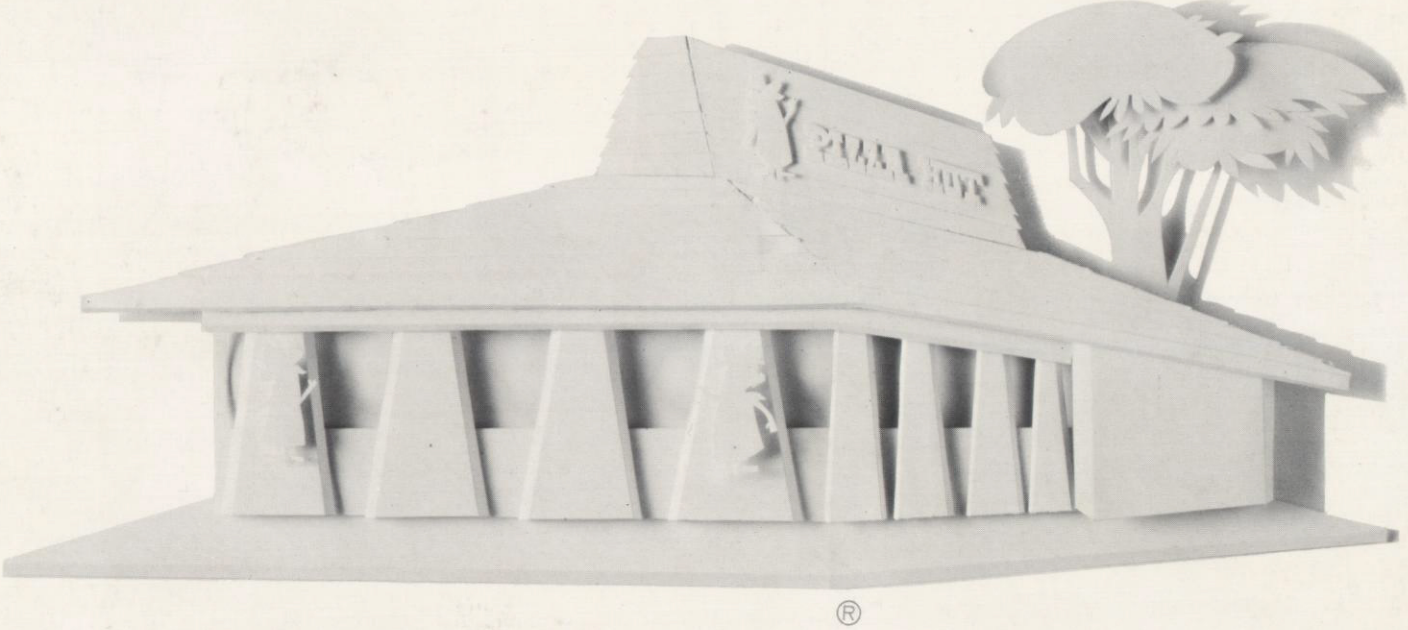
M. Hal Taylor, Director Research and Development



Larry F. Payne, President J&G Products, Inc.

Kenneth Miller, Director Franchise, Frank L. Carney, President & Chief Executive Officer

Farris S. Farha, Director of Administrative Services and Lois Bird, Director of Office Services



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